



TENNESSEE REGULATORY AUTHORITY



2011-2012
ANNUAL REPORT



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February 1, 2013

The Honorable Bill Haslam
Governor, State of Tennessee

The Honorable Ron Ramsey
Lieutenant Governor

The Honorable Beth Harwell
Speaker of the House of Representatives

Members of the General Assembly

It is with great pleasure that I present to you the 2011-2012 Annual Report of the Tennessee Regulatory Authority. This report has been prepared in accordance with Tennessee Code Annotated § 65-1-111.

The TRA was established in 1996 and charged with the responsibility of promoting the public interest by balancing the interests of utility consumers and providers while facilitating the transition to a more competitive environment. The Authority has jurisdiction over Tennessee's investor-owned utility companies including electric, telephone, water and wastewater, natural and methane gas. Further, the TRA serves as the agency that performs the safety inspections of natural gas pipelines that travel across the state and mediates consumer complaints against utility service providers.

Through our numerous consumer outreach efforts, the TRA continues to provide Tennessee citizens with information that can enhance their daily lives and provide protection and relief from unwanted telephone solicitations and fraudulent activities. Among the Authority's more popular programs are the Tennessee Do Not Call Program and the Telecommunications Devices Access Program (TDAP). In addition, through our various public and private partnerships across the state, the TRA continues to promote awareness of the Lifeline telephone assistance program to promote universal access to telephone service. We remain focused on the work that we have been entrusted to perform, as well as the role we play in protecting Tennessee consumers and maintaining an environment that is vigorously competitive. To the members of the Tennessee General Assembly, we look forward to working with you and in continued service to the citizens of the Volunteer State.

Warmest regards

Earl Taylor
Executive Director



Authority Overview



The Directors are: (Left to right) Sara Kyle, David Jones, Chairman James Allison, Herb Hilliard and Kenneth C. Hill.

Introduction

The Tennessee Regulatory Authority (the Authority), the governing body to regulate utilities in Tennessee was created in 1996. The Authority's mission is to promote the public interest by balancing the interests of utility consumers and providers while facilitating the transition to a more competitive environment.

Earl Taylor was appointed Executive Director of the TRA in 2012 by Governor Bill Haslam, Lt. Governor Ron Ramsey and House Speaker Beth Harwell. In addition, the TRA has five Directors, each of whom serve on a part-time basis and are appointed by the Governor, Lt. Governor, and Speaker of the House. The Directors include (from left to right), Director Sara Kyle (a 1996 appointee of the House Speaker), Director David Jones (a 2012 joint appointee of the Governor, Lt. Governor and House Speaker), Chairman James Allison (a 2012 joint appointee of the Governor, Lt. Governor and House Speaker), Director Herbert Hilliard (a 2012 appointee of the Governor), and Director Kenneth C. Hill (a 2009 appointee of the Lt. Governor).



Authority Leadership



Earl Taylor, Executive Director

Earl R. Taylor was appointed to the Tennessee Regulatory Authority as Executive Director in 2012 by Governor Bill Haslam, House Speaker Beth Harwell, and Lt. Governor Ron Ramsey.

Taylor received a Bachelor of Science degree from the University of Tennessee at Knoxville and a Juris Doctor (JD) from the University of Memphis School of Law. He began his career as an attorney in his home town of Johnson City, Tennessee.

Later professional endeavors included the development of WKXT-TV, the CBS Television affiliate in Knoxville, Tennessee, and the subsequent launch of the Warner Brothers affiliate in the same market. Most recently, Mr. Taylor has been a franchisee of Panera Bread, developing bakery-cafes in Florida, Texas, and Louisiana.

Actively engaged in his community, Mr. Taylor has served as a mentor in the Knoxville Fellows program, as a commissioner for the Metropolitan Knoxville Airport Authority, and on the Knoxville Young Life Committee.

As Executive Director of the TRA, Mr. Taylor functions as the Authority's Chief Operating Officer (COO), responsible for the agency's administrative duties and responsibilities.

Mr. Taylor is married to Sheryl Dawson Taylor. They have four children and 5 grandchildren.



James Allison, Chairman

Chairman Allison was appointed to the TRA by Governor Bill Haslam, Lt. Governor Ron Ramsey and House Speaker Beth Harwell.

Chairman Allison is an accomplished utility executive with over 35 years of industry management experience across the United States. His career has spanned all sectors of the electric utility industry with service at the Officer/CEO level in the investor-owned, government owned and cooperative sectors of the electric industry, with approximately equal time in each sector. He has served on numerous corporate boards and governing bodies and represented various organizations before the local, state and Federal bodies, including experience working with Public Service Commissions in six states, U.S. Congress and various state legislative bodies and Boards of corporations with which he has been affiliated with.

Chairman Allison is a long time college football official with the Southeastern Conference (SEC) with experience officiating at the sport's highest and most prestigious levels for over 25 years. In his officiating capacity, he serves as an Instant Replay Official and Observer/Evaluator.



Authority Leadership (cont.)



Herbert Hilliard

Herb Hilliard was appointed to the Tennessee Regulatory Authority in 2012 by Governor Bill Haslam.

Herb Hilliard served as Executive Vice President and Chief Government Relations Officer for First Horizon National

Corporation. In this role, he was responsible for the corporation's lobbying activities at the federal and state levels. Hilliard is a 43-year veteran of the company, having joined First Horizon in 1969 after earning a BBA in Personnel Administration and Industrial Relations from the University of Memphis. Prior to his current role, Hilliard was Executive Vice President and Chief Risk Officer. Hilliard retired from First Horizon National Corporation on September 26, 2012.

Hilliard is active in the community, currently serving as Chairman of the Board of Directors of The National Civil Rights Museum, Board Member of Blue Cross Blue Shield of Tennessee, and a Commissioner for the Memphis Shelby County Airport Authority. He serves on the Government Relations Council for The Tennessee Bankers Association and The Financial Services Roundtable.

He was Chairman of the Memphis Housing Authority Board from 1992-1993, 1987 Chairman of the United Way general fund drive, and the 1988 Chairman of the Annual NAACP Freedom Fund Dinner. He is past member of the Memphis Park Commission, the University of Memphis National Alumni Board, the University of Memphis Foundation Board and the Boards of Directors for the Chickasaw Council of the Boy Scouts of America and the Memphis Convention and Visitors Bureau. From 2000 to 2005, Herb was Chairman of the Board of Blue Cross Blue Shield of Tennessee. He is currently Chairman of the Audit Committee of Blue Cross Blue Shield of Tennessee.

Hilliard has completed additional studies at the Southwestern Graduate School of Banking at Southern Methodist University, the Tennessee Executive Development Program at the University of Tennessee - Knoxville, Cornell University's Executive Development Program and Crosby Quality College. He is married to Dr. Shirley Hilliard and has two children and one grandchild.



David Jones

Director Jones was appointed to the TRA by Governor Bill Haslam, Lt. Governor Ron Ramsey and House Speaker Beth Harwell.

Director Jones is President of Complete Holdings Group, a workers' compensation revenue

solutions company to more than 300 hospitals across 30 states. He is a certified facilitator/executive coach with the Alternative Board, a peer-to-peer advisory group for CEOs and owners of private businesses. He is also President of the David Jones Group, a management consulting firm that focuses on helping small businesses overcome the four barriers to growth. Director Jones spent 29 years in the natural gas pipeline industry. The first half of his career was spent in Human Resources with a Fortune 500 energy company where he worked in a variety of areas, including Field Operations. Additionally, he led separate transition teams responsible for merging the operations, technical services, engineering, financial and commercial areas for three multi-billion dollar acquisitions.

He was active in key leadership roles within the energy industry and has served on the Southern Gas Association's Corporate Telelink Network (CTN) Board of Directors, Chairman of Interstate Natural Gas Association of America (INGAA) Security Committee, Vice Chairman of the Oil and Natural Gas Security Coordinating Council and a member of the National Infrastructure Advisory Committee Pandemic Working Group.

Director Jones obtained a B.S. in Business from the University of Tennessee and an MBA from the University of Houston. He is author of the book *Surviving and Thriving After Losing Your Job*.



Authority Leadership (cont.)



Sara Kyle

Sara Kyle was born in 1952 near the Tri-Cities area of Upper East Tennessee just a few days before her uncle, the late Frank G. Clement, was elected to his first of three terms as governor of Tennessee. She attended Lincoln Elementary in

Kingsport, and after moving to Middle Tennessee, graduated from Dickson High School. The daughter of Mr. and Mrs. Bruce Peery, she attended the University of Tennessee in Knoxville before graduating from Austin Peay State University and teaching elementary school in Clarksville. She attended graduate courses at Middle Tennessee State University while teaching. She received her law degree in 1987, the same year she married Senator Jim Kyle (D-Memphis). She practiced law in the same firm with her husband and was an assistant public defender until she was elected to the Memphis City Court bench in 1991. A member of a family with a proud tradition of public service in elective office, she has studied the ways government relates to its citizens and worked to make that government and its agencies and courts sensitive to the needs of its citizens.

Director Kyle resigned from the bench in March 1994 to become a candidate for the Public Service Commission—a race in which she stressed a strong ethics and reform program as a way to restore public confidence in the commission. She was nominated on February 29, 1996 by House Speaker Jimmy Naifeh to become one of three members of the new Tennessee Regulatory Authority. She was reappointed by Speaker Naifeh in 2002 and again in 2008 to serve another six-year term. The Kyles have four children and attend Second Presbyterian Church in Memphis. Long active in organizations promoting better government and public awareness, she is involved in numerous community and civic organizations. Additionally, she is a board member of the National Association of Regulatory Utility Commissioners (NARUC), serving on the Telecommunications Committee, and is past president of the Southeastern Association of Regulatory Utility Commissioners (SEARUC).



Dr. Kenneth C. Hill

Dr. Kenneth C. Hill was appointed to the Tennessee Regulatory Authority in 2009 by Lieutenant Governor Ron Ramsey. Dr. Hill is married and lives with his wife, Janet, in Blountville, Tennessee. The couple have three children.

Dr. Hill's educational achievements include a Bachelor of Science degree in

Speech (Broadcasting) and History from East Tennessee State University; a Master of Science Degree in Speech (Broadcasting) from Indiana State University; a Bachelor of Arts degree in Biblical Studies from Baptist Christian College; a Master of Religious Education from Manahath School of Theology; and a Doctor of Religious Education from Andersonville Baptist Seminary.

Dr. Hill has been active in communications and broadcasting all of his adult life, having been involved for over three decades in virtually every aspect of television and radio. For the past twenty-seven years, Dr. Hill has been affiliated with the Appalachian Educational Communication Corporation (AECC) Bristol, Tennessee and at the time of his appointment to the TRA was Chief Executive Officer of AECC and served as General Manager of five radio stations reaching portions of East Tennessee and four surrounding states.

Dr. Hill has also provided consulting and contract services for over two decades in the areas of technical writing and editing, public relations, proposal writing and editing, independent R&D documentation, corporate and business communication, media acquisition, media appraisal and media utilization.

Dr. Hill is active in the community, serving as Chairman of the Publications Board of the Evangelical Methodist Church, Member of the Board of Directors of the Tri-Cities Mass Choir, Member of the Board of the Sister Community Project (Sullivan County, Tennessee and Siguatepeque, Honduras), and Member of the Bristol Evening Lions Club. Dr. Hill also served as Secretary of the General Conference of the Evangelical Methodist Church for twelve years and is a former member of the Sullivan County Board of Zoning Appeals.

Since his appointment, Dr. Hill has been involved with the National Association of Regulatory Utility Commissioners (NARUC) and the Southeastern Association of Regulatory Utility Commissioners (SEARUC). He is a member of the NARUC Committee on Water and the Committee on International Relations and has been a presenter at the NARUC Annual Meeting. Dr. Hill has also been a panelist at the National Association of Water Companies (NAWC) Conference and the Emerging Issues Policy Forum.



The Office of the Executive Director

Mission

The Executive Director serves as the TRA's chief operating officer with the power and duty to conduct the ordinary and necessary business in the name of the Tennessee Regulatory Authority.

The Executive Director has the principal responsibility of implementing the broad strategies, goals, objectives, long-range plans and policies of the authority. Among the executive director's duties, which are not limited to, the following list, are:

- ♦ Serve as chief operating officer of the authority responsible for the day to day management of the authority and the supervision and hiring of all staff members within the limits of available funds authorized from time to time by the legislature
- ♦ Administer, monitor and review the operating procedures of each division of the authority, ensuring that each employee and division of the authority fully executes in an efficient and economical manner, the separate duties assigned to each
- ♦ Submit rules and policies for approval by the authority
- ♦ Implement and administer rules and policies for the efficient and economical internal management of the authority
- ♦ Coordinate the preparation of the report to the General Assembly as required by Tennessee Code Annotated Section 65-1-111
- ♦ Supervise the expenditure of funds and compliance with all applicable provisions of state and federal law in the receipt and disbursement of funds





Our Mission

To promote the public interest by balancing the interests of utility consumers and providers while facilitating the transition to a more competitive environment.

The Authority's mission is fulfilled through two major operational components: consumer assistance and regulatory oversight of utility operations and market conditions.

Consumer Assistance Component

In alignment with its consumer assistance component, the Authority offers an efficient forum for the filing, investigation, and hearing of consumer complaints against regulated utilities. The Authority also engages in consumer outreach activities in an effort to educate consumers on its services and the regulated utilities. The Authority manages consumer-friendly programs developed by the General Assembly, such as the Do Not Call Program, the Do Not Fax Program, the Telecommunications Device Access Program (TDAP), and the Life Line telephone assistance program.

Regulatory Oversight Component

The Authority operates as Tennessee's regulatory oversight engine for privately-owned utilities serving Tennessee consumers. The Authority provides an accessible and efficient process that is fair and unbiased. Through this process, the Authority evaluates many items, including requests for rate modifications, applications for authority to provide service, requests for approval of financing transactions, requests for

approval of mergers, petitions for transfer of authority to provide service, numbering appeals, requests for numbering allocations, requests for rule modifications, petitions for approval of interconnection agreements and utility-to-utility complaints. The Authority also monitors utility markets to evaluate current trends and determine the need for future action. The Authority is also designated to ensure the safety of natural gas distribution and transmission pipeline facilities in the state.

The Authority has jurisdiction over public utilities including:

- ♦ Electric companies
- ♦ Telephone companies
- ♦ Water and wastewater companies
- ♦ Natural gas companies
- ♦ Methane gas companies

The Authority is financially independent of Tennessee's general fund. The Authority's operational expenses are covered wholly by the industries it regulates, with a small portion coming from the federal government.

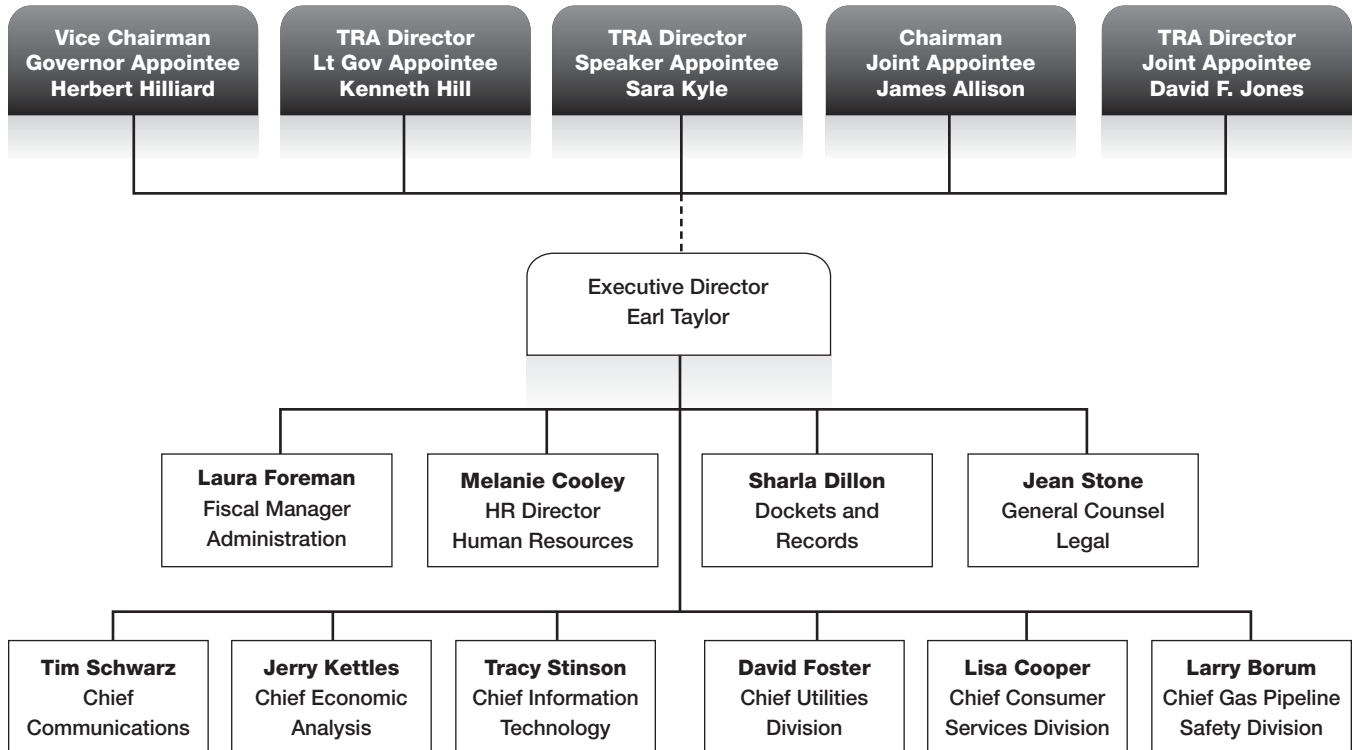
Authority staff includes accountants, administrators, attorneys, consumer specialists, economists, engineers, information technology specialists, a consumer outreach manager, and administrative support.

As of June 30, 2012, the TRA was budgeted for 71 Positions

TRA Employees	As of 6/30/11	During FY 11-12			As of 6/30/12		
	Total Positions	Abolished	Added	InterAgency Transfers	Total Positions	Filled	Vacancies
Directors	4				4	2	2
Directors' Staff	8			(1)	7	4	3
Administrative Staff	7			(2)	5	5	0
ARRA Electric Grant	3			(1)	2	0	2
Cable & Gas Damage Prevention	1			(1)	0	0	0
Communications and External Affairs	0			4	4	3	1
Consumer Services	15			1	16	14	2
Economic Analysis and Policy	3				3	2	1
Gas Pipeline Safety	7				7	7	0
Information Technology	2				2	2	0
Legal	7				7	7	0
Utilities	14				14	11	3
Total Positions	71	0	0	0	71	57	14



Tennessee Regulatory Authority Organization Chart





Utilities Under the Authority's Jurisdiction

The following are the approximate number of utilities under the jurisdiction of the Tennessee Regulatory Authority as of June 30, 2012.

Energy and Water

Electric	3
Natural Gas Companies**	5
Water & Waste Water	19
Methane Gas Provider	1
Intrastate Pipeline	1

Telecommunications

Competing Telephone Service Providers	427
Customer Owned-Coin Operated Telephone Providers	79
Incumbent Telephone Companies	27
Resellers and Operators Service Providers	203
Long Distance Facility Providers	5

Gas Pipeline Safety

Direct Sales*	17
Intrastate Pipeline*	17
Liquefied Natural Gas (LNG) Operators*	2
Master Meters*	28
Municipalities*	97
Utility Districts*	25

Total Public Utilities	654
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*These entities are regulated by the Authority only to ensure compliance with Minimum Federal Safety Standards for the transmission of natural gas.

**The Authority also has jurisdiction over these companies' gas pipeline safety.



Budget Summary

Appropriations, Fees, and Expenditures

The Tennessee Regulatory Authority ("TRA") began fiscal year 2011-2012 (FY 11-12) with a budget of \$8,605,600. Due to cost efficiencies realized during FY11-12, the TRA's actual FY11-12 operational costs were \$6,928,082 - a total savings of \$1,677,518 (19.5%) from the FY11-12 budget appropriation.

Total revenues collected by the TRA during FY11-12 were \$8,109,604 the majority of which was derived from utility inspection fees paid by the public utilities regulated by the TRA. Total inspection fee revenue received during FY11-12 was \$6,399,957. In addition to the inspection fee revenue, the TRA received \$557,489 in federal revenue for the gas pipeline safety programs, \$9,237 in federal ARRA funds, \$259,575 in registration fees from telemarketers for the "Do Not Call" program, \$20,067 in fines and penalties, \$750,500 in contributions to the Telecommunications Devices Assistance Program ("TDAP"), \$104,525 in application and amendment fees from certain cable

companies, \$2,901 in current services, and \$5,353 in filing fees.

All of the revenues, except the revenue received from contributions for TDAP, are earmarked for the Public Utilities Account and are to be used to defray the cost of regulation by the TRA. Should revenues in a future fiscal year(s) not be sufficient to cover the costs of the TRA for that fiscal year, the deficit is funded by the Public Utilities Reserve Account. At June 30, 2012, the Public Utilities Reserve Account had a balance of \$2,566,040. The TDAP Program revenue is specifically earmarked for the purchase of TDAP equipment for the qualifying disabled citizens of Tennessee and the administration of the program. The TDAP Reserve Account had a balance of \$859,452 as of June 30, 2012.

The TRA also funds the majority of the administrative costs of the Office of State Assessed Properties. For FY11-12, the TRA's total inspection fee revenue of \$6,399,957 was reduced by \$413,111 for the cost of the Office of State Assessed Properties which is part of the Tennessee Office of the Comptroller.

TRA Budget Summary





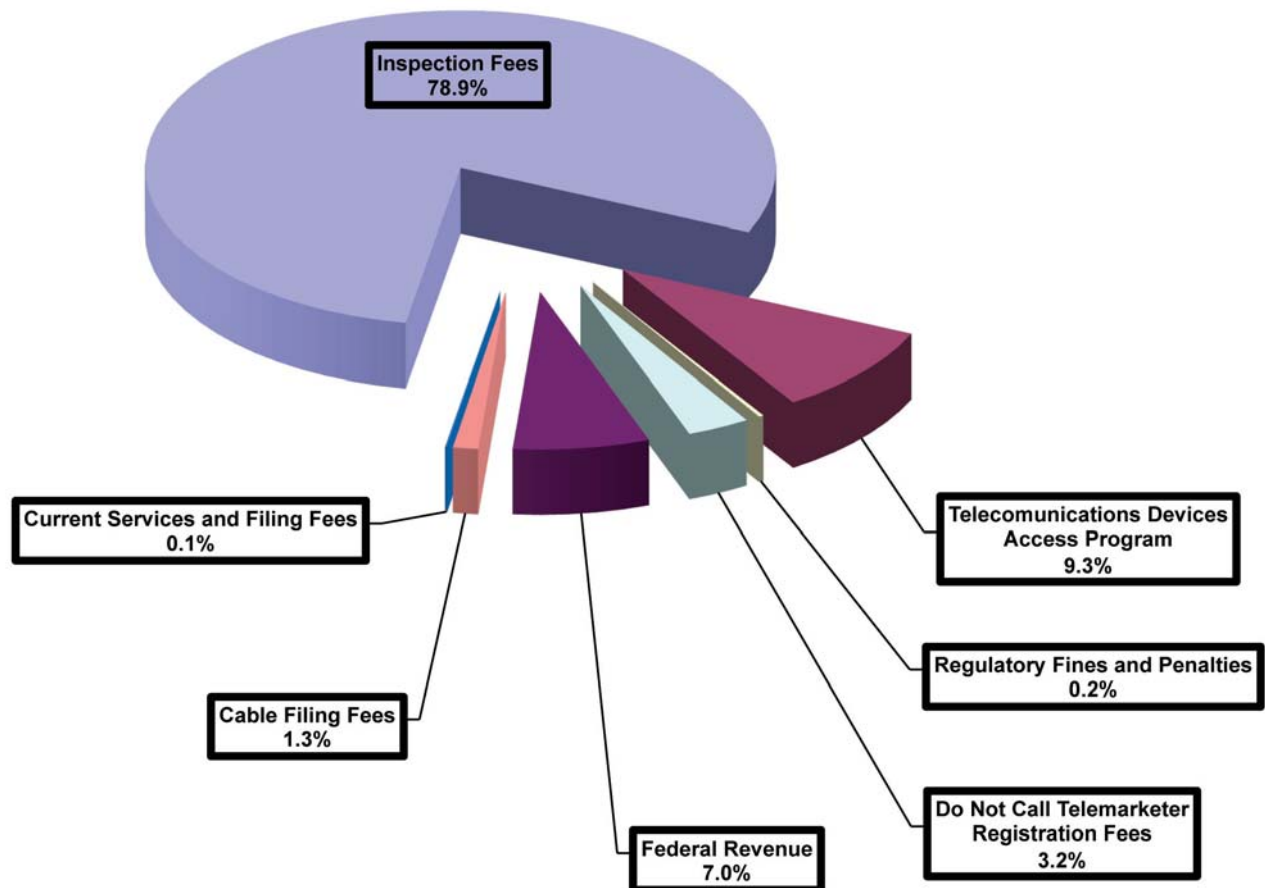
Budget Summary (cont.)

FY 11-12 Revenues

Inspection Fees	\$6,399,957	78.9%
Telecommunications Devices Access Program	\$750,500	9.3%
Regulatory Fines and Penalties	\$20,067	0.2%
Do Not Call Telemarketer Registration Fees	\$259,575	3.2%
Federal Revenue	\$566,726	7.0%
Cable Filing Fees	\$104,525	1.3%
Current Services and Filing Fees	\$8,254	0.1%
TOTAL REVENUES FOR FY 11-12	\$8,109,604	100.0%

The FY11-12 Actual Inspection Fee Revenue received by the TRA was \$6,399,957. However, this amount was reduced by \$413,111 by the Comptroller's Office for the amount charged the TRA for its share of the cost of State Assessed Properties.

TRA FY 11-12 Revenues





Docket Room and Authority Activity

Docket Activity

(overview since 2008 Fiscal Year)

Type of Docket	Fiscal 2010	Fiscal 2011	Fiscal 2012
	(7/1/09 - 6/30/10)	(7/1/10 - 6/30/11)	(7/1/11 - 6/30/12)
Total	251	223	179
Arbitrations	3	0	0
Inconx/Resale Agreements	73	45	34
PGAs, Audits,CCN Amendments	15	15	18
CSD Staff Investigations	2	6	1
CCNs	11	11	7
COCOTS	13 (8 reopened)	10 (10 reopened)	10 (6 reopened)
Name Changes	15	14	8
Resellers	8 (1 reopened)	11 (10 reopened)	6 (2 reopened)
N11 / Pooling	12	8	13
Rulemaking	0	0	0
Telecom Dockets (ETC)	6	3	1
Notice - Market Regulation**	30	28	25
Cable Franchise**	4	1	4
Transfers, Mergers, Financing	32	35	25
Misc. (not otherwise listed above)	27	36	30
Total: New	242	203	171
Reopened	9	20	8

^^ 7 COCOT dockets, 2 CCN dockets and 4 Reseller dockets were reopened fiscal year 2009 for cancellation or revocation of authority.

**New docket type due to legislation.



Communications & External Affairs Division

Tim Schwarz, Chief

Mission

The mission of the Communications and External Affairs Division is to advance and support the Tennessee Regulatory Authority's larger role of promoting the public interest through consumer outreach & education, external & internal communications, legislative and policy initiatives and Title VI compliance.

Duties include:

- ♦ Media Relations
- ♦ Writing press releases
- ♦ Social Media Management
- ♦ Website Content Management
- ♦ Oversees publication of the agency's special reports
- ♦ Ensures compliance of agency's forms and documents
- ♦ Intra-agency collaboration
- ♦ Special events photographer
- ♦ Title VI Compliance
- ♦ Legislative and Policy Action

Moreover, within the Communications & External Affairs Division is the office of Consumer Education and Outreach. Consumer Education and Outreach is responsible for providing critical information to Tennessee consumers and organizations about the TRA's regulatory scope and responsibilities and the various programs and services available to consumers through the agency.

Among the areas of expertise and information Consumer Education and Outreach provides includes information on the

Lifeline Telephone Assistance Program and other assistance programs; the National Deaf-Blind Equipment Distribution Program; the Telecommunications Devices Access Program; Gas Pipeline Safety; Tennessee's Do-Not-Call/Do-Not-Fax Programs; filing utility complaints with the TRA; Tennessee Relay Service and other worthwhile consumer programs and resources.



Consumer Services Division

Lisa Cooper, Chief

Mission

To ensure consumers receive an adequate level of service from regulated companies and to educate consumers regarding changes and new programs in the regulated utility sector. This mission is accomplished through consumer outreach, monitoring services utilities provide using quality of service reports and tests, initiating investigations, and mediating consumer-utility disputes resulting from consumer complaints.

Duties

The Consumer Services Division (“CSD”) is responsible for monitoring the quality of services provided by regulated utilities and enforcing the rules and regulations of the Authority. One aspect of this responsibility is to investigate and mediate consumer complaints filed against regulated utilities pursuant to T.C.A. §§ 65-4-119, 65-4-401 et seq., and 65-4-501 et seq.

The CSD also performs other functions such as: providing consumer education/outreach including developing and implementing programs to educate the public on various utility issues; administering the Do Not Call telemarketing initiative through the registration of telemarketing companies and maintaining the Do Not Call Register; administering the Do Not Fax Program which is designed to prevent unsolicited faxes; and certifying the Lifeline Telephone Assistance Program candidates based on income.

The CSD administers the Telecommunication Devices Access Program (“TDAP”), which is designed to improve access to the telephone network by distributing equipment to assist individuals with disabilities. Additionally, the CSD monitors the operation of the Tennessee Relay Center for individuals with a hearing loss or speech disability.

The CSD conducts service hearings, community outreach meetings and utility service audits; provides testimony at utility proceedings and provides recommendations in enforcement actions involving utilities not in compliance with state law or the rules and regulations of the Authority.

2011 Major Activities

- ♦ Investigated 1033 consumer complaints filed against regulated utility companies.

- ♦ Assisted in securing \$93,660 in refunds for consumers as a result of investigations.
- ♦ Distributed 1236 TDAP devices costing \$360,441 to 1,174 Tennessee residents qualifying for assistive communication devices.
- ♦ Administered the Lifeline Telecommunications Assistance Program. Fiscal year 2012 there were 427,936 Tennesseans receiving the Lifeline credit on their monthly telecommunications charges. Approved 837 residents for discount eligibility based on income and 256 residents based on public assistance.

On December 14, 2011 The Tennessee Regulatory Authority issued a **Request for Proposal** for a new Traditional Relay Service (TRS) provider. As a result of the request, AT&T Relay became the new state vendor for Relay Services on March 25, 2012. The Relay Center is a service designed to assist individuals with hearing loss and speech disabilities to make and receive telephone calls. During fiscal year 2012, the Relay Center processed approximately 89,556 calls, an average of 18,061 calls on a monthly basis.

- ♦ Administratively reviewed the reported operational practices of the Tennessee Relay Center to ensure that it is complying with the Authority's rules and regulations.

The CapTel Service is designed to assist individuals who are late deafened or hard of hearing to make and receive telecommunications calls with a captioning feature offered by this service. The CapTel Service processed approximately 264,032 calls during the fiscal year 2012.

- ♦ Administratively reviewed the reported operational practices of the Tennessee CapTel Service to ensure that it is complying with the Authority's rules and regulations.

Administered the Tennessee “Do Not Call” Program. End of fiscal period 2012, 4,643,710 Tennesseans registered with the “Do Not Call” program and 362 active telemarketers had registered as solicitors. The TRA investigated 1363 “Do Not Call” telemarketing complaints by consumers against telemarketing companies during the fiscal year 2012.

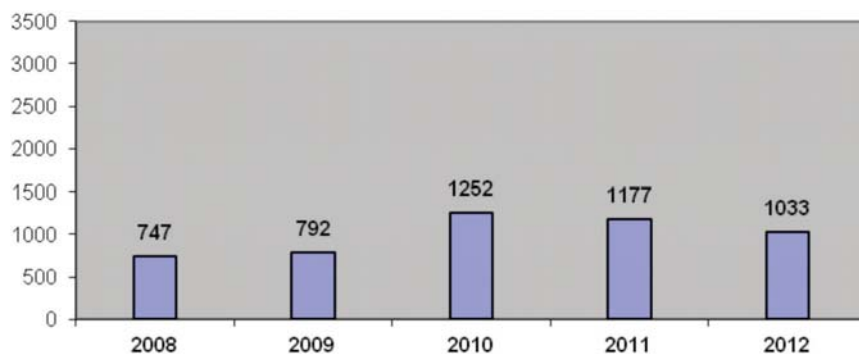
Administered the Tennessee “Do Not Fax” Program. The TRA has investigated 161 fax complaints from consumers involving unsolicited facsimiles during the fiscal year 2012.

¹ This information is based on data provided by USAC, [Reimbursement distribution filings]. 2010/2011 Lifeline subscribers include wireless Tennessee residents. (Landline only - 2010 – 106,273 / 2011 – 93,687)

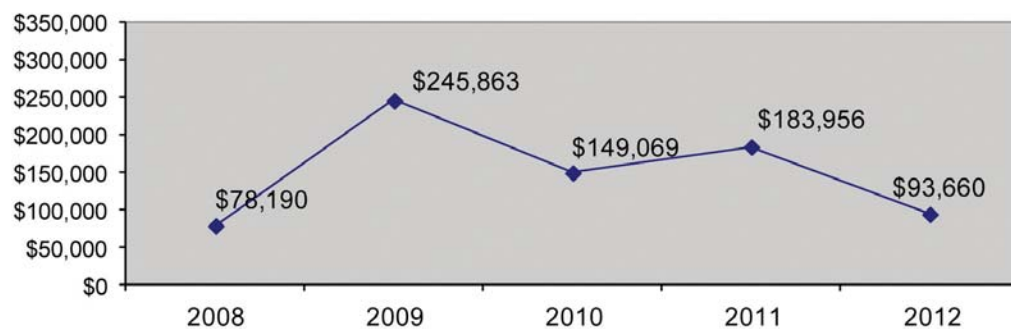


Consumer Services Division (cont.)

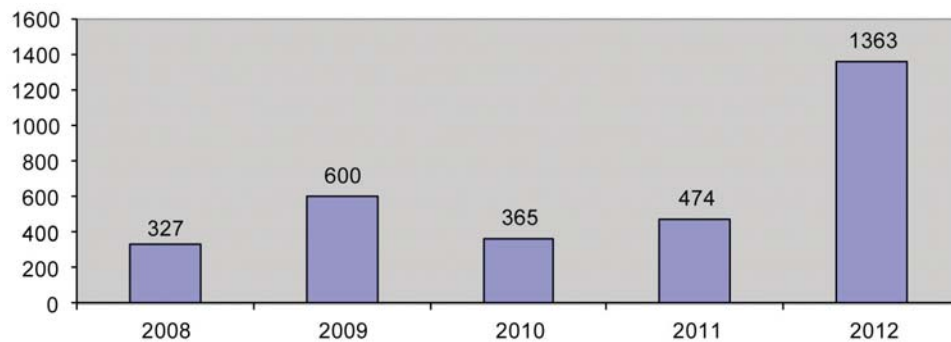
**Total Complaints Investigated
2008-2012**

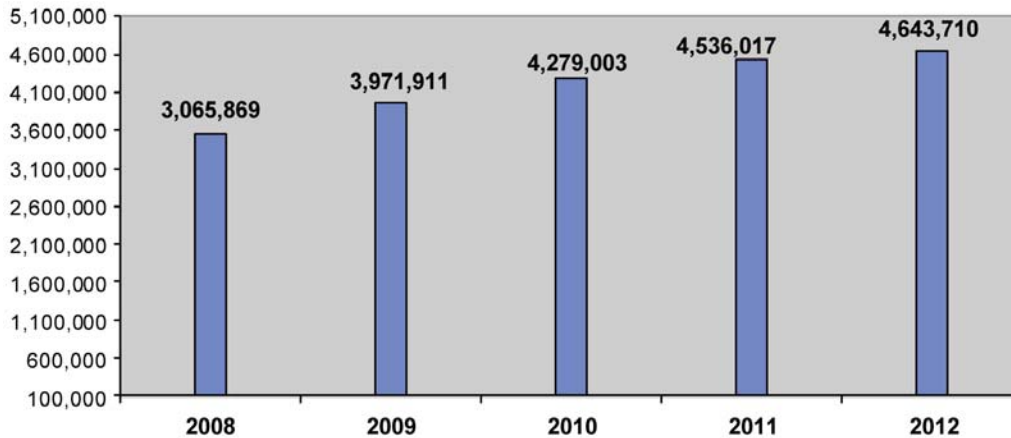
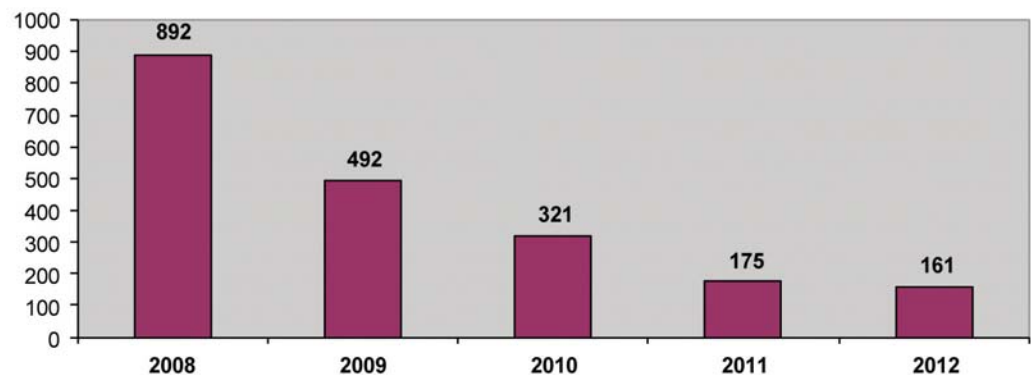
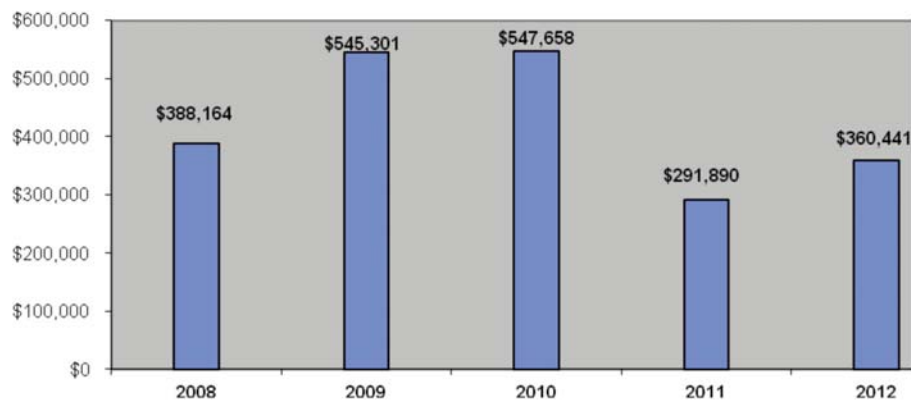


**Consumer Complaint Refunds
2008-2012**



**Telemarketing Complaint Investigations
2008-2012**

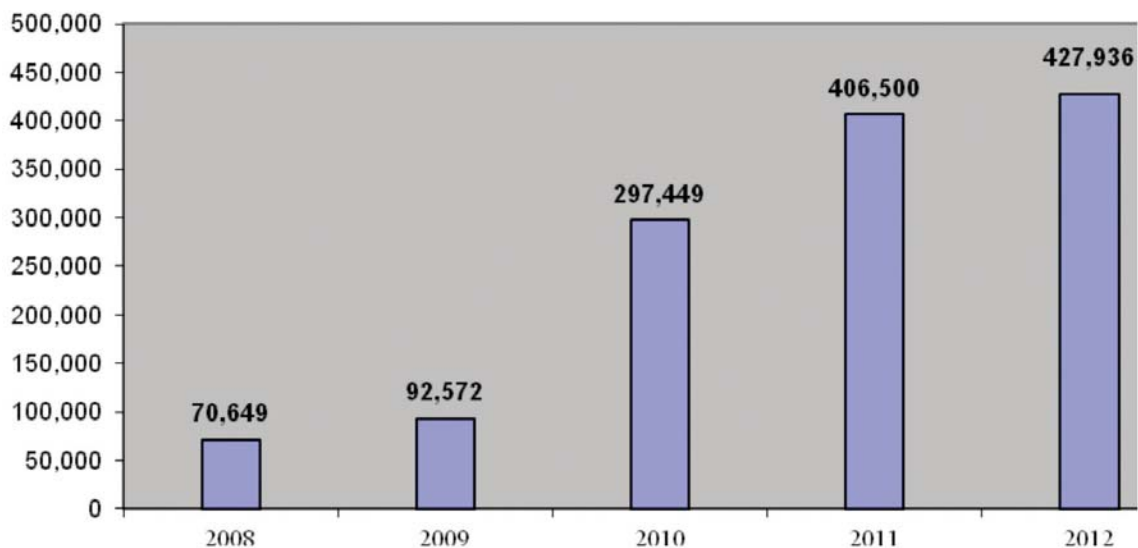


**Consumer Services Division (cont.)****Consumer Registration History
Do Not Call List****Do Not Fax Complaint Investigations
2008-2012****TDAP Device Costs
2008-2012**



Consumer Services Division (cont.)

Tennessee Lifeline
Telephone Assistance Subscribers
2008-2012*



*This information is based on data provided by USAC, [Reimbursement distribution filings.



Economic Analysis and Policy Division (EAPD)

Jerry Kettles, Chief

Mission

The EAPD is comprised of talented professionals with diverse backgrounds including academia, consumer protection and industry experience.

The primary role of the division is to formulate recommendations on economic and policy matters pending before the Authority. The Division identifies and analyzes market trends that may impact regulation or consumers in electric, telecommunications, water, wastewater and natural gas markets. The EAPD also monitors and evaluates the impact of TRA decisions on market outcomes in the various regulated industries. The Division also has responsibility for analysis of mergers, acquisitions and the issuance of financial instruments by public utilities.

The EAPD provides information concerning the financial activities of regulated firms. In the past fiscal year, EAPD Staff continued its role of providing expert advice concerning cost-of-capital issues in rate case proceedings. The EAPD reviews requests to engage in financing transactions by public utilities.

The Division also evaluates requests for corporate mergers and transfers of control of Tennessee certificated utilities. In many instances, mergers and transfers of control involve the transfer of customers to new service providers. To ensure the consumers receive adequate information, EAPD Staff reviews notification letters to be sent to customers for compliance with the TRA's consumer protection rules. During the past year, the Division has reviewed 25 requests for financing, merger or transfer of control. Given current economic conditions, recently enacted state-level deregulatory legislation and trends within the telecommunications industry, the current volume of mergers and transfers is expected to decline.

The Division also has provided analytic support to other groups within the TRA on a diverse range of topics including financial derivatives used in the natural gas industry, implementation of orders issued by the Federal Communications Commission and interpretation of statistical analysis. The division has been active providing technical support to the 2-1-1 Advisory Council. The EAPD also plays a key role in the TRA's implementation of Competitive Cable Act. The division participates actively in professional meetings, such as those sponsored by NARUC.



Gas Pipeline Safety Division

Larry Borum, Chief

Mission

The mission of Tennessee Regulatory Authority (TRA) Gas Pipeline Safety Division (GPSD) is to contribute to the safety and reliability of natural gas distribution and transmission pipeline facilities and to minimize the risk to public health and safety associated with the accidental release of natural gas.

Compliance Program

Chapter 601, Title 49 of the United States Code provides the statutory basis for the pipeline safety program. Chapter 601 establishes a framework for promoting pipeline safety through Federal delegation to the States for all or part of the responsibility for intrastate pipeline facilities under annual certification or agreement. Chapter 601 authorizes Federal grants-in-aid of up to 80 percent of a State agency's personnel, equipment, and activity costs for its pipeline safety program.

The State of Tennessee annually enters into a certification agreement with the Secretary of the Department of Transportation and accepts the responsibility for regulation of intrastate natural gas pipeline facilities. The Pipeline and Hazardous Materials Safety Administration (PHMSA) directly administers the program under the Department of Transportation. The Tennessee Regulatory Authority is the state agency authorized to regulate intrastate pipeline facilities and does so through its Gas Pipeline Safety Division (GPSD). Calendar year 2011 will mark the fifteenth year the GPSD has submitted a certification agreement and been approved by the United States Department of Transportation to carry out an enforcement program based on regulations contained in Parts 191, 192, 193 and 199 of the Code of Federal Regulations. Part 192 is referred to as the Transportation of Natural and Other Gas by Pipeline: Minimum Federal Safety Standards (MFSS).

Energy needs are met for many Tennesseans through the use of natural gas. Natural gas is supplied through approximately 42,000 miles of distribution and transmission lines across the state. This length is equivalent to approximately 222,000,000 feet of pipeline and provides natural gas service to approximately 1,305,000 customers. The natural gas distribution operators in Tennessee range in size from eight (8) to 307,000 customers.



Natural gas operational units include distribution systems, intrastate transmission lines, liquefied natural gas plants and storage facilities, apartment complexes, and housing authorities. Across the State of Tennessee there are a total of 182 operational units comprised of 165 jurisdictional and seventeen (17) non-jurisdictional operational units. The GPSD is responsible for inspecting selected records and facilities for the purpose of determining if each operator is operating and maintaining the gas system in accordance with the Minimum Federal Safety Standards.

The GPSD has an inspection staff of five pipeline safety engineers. Each engineer completes mandatory pipeline safety courses at the PHMSA Training and Qualification center in Oklahoma City, OK. A



minimum of one (1) onsite inspection is conducted on each of the 182 natural gas system jurisdictional and non-jurisdictional operating units during each calendar year. Depending on need some systems are inspected multiple times during a particular calendar year. The inspection staff accumulates approximately 460 inspection days annually. The goal of this work is to ensure that natural gas as a source of energy is available and that it is provided by facilities that are operated and maintained as safely as possible.

The state pipeline safety program is inspected by PHMSA personnel on an annual basis. The 2011 Tennessee program was evaluated in March 2012 and received a composite score of 100%. The results of the annual evaluation contribute to the determination of the level of federal funding.

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Gas Pipeline Safety Division (cont.)

♦ Natural Gas Operator Inspections:

The 182 operational units are controlled by 5 private companies, 72 municipalities, 25 utility districts, 30 master meter operators, and 32 intrastate pipeline companies. Operators are required to maintain records, compile reports, update operations and maintenance plans, and promptly repair all hazardous leaks. Drug and alcohol programs are reviewed annually to ensure that required testing is being conducted. The table indicates the inspection activity for the period July 1, 2011 through June 30, 2012.

Inspection Activity 2011/2012

Inspection Type	Number
Standard	339
Public Awareness	10
Specialized	25
Follow-Up	72
Construction	12
Incident	1
Training	4
Liquefied Natural Gas	2
Total Inspection Days	465

♦ Natural Gas Incidents:

The Minimum Federal Safety Standards §191.3 defines an incident as any of the following: 1) An event that involves a release of gas from a pipeline or liquefied natural gas or gas from an LNG facility and i) A death, or personal injury necessitating in-patient hospitalization; or ii) Estimated property damage, including cost of gas lost, of the operator or others, or both, of \$50,000 or more, (iii) Unintentional estimated gas loss of three million cubic feet or more; 2) An event that results in an emergency shutdown of an LNG facility, 3) An event that is significant, in the judgment of the operator, even though it did not meet the criteria of parts 1 or 2. One (1) reportable incident occurred in the past fiscal year. The ultimate goal of the GPSD is to enforce pipeline safety regulations to the extent that there are no accidents or reportable incidents throughout the State of Tennessee.



♦ Violations and Civil Penalties:

The violations cited by the GPSD against an operator are recorded and filed on an ongoing basis. Each operator receives verbal and written notices of the violation(s) and is given sixty days from receipt of the written notice to correct any deficiencies that resulted in the citation. A follow-up inspection is scheduled after the sixty-day time period to ensure that the operator is taking action to correct these violations. Failure to take corrective action on cited violations could subject the operator to civil penalties in accordance with Tennessee Code Annotated §65-28-108. There were 129 violations cited and 97 violations corrected during this fiscal year. (Violations corrected include those cited from previous years.)

Activities and Accomplishments

♦ Cast Iron Replacement Program:

The federal Department of Transportation's Pipeline and Hazardous Materials Safety Administration has deemed the replacement of cast iron piping a priority for state programs. The GPSD



will continue to closely monitor Tennessee natural gas system operators' progress in eliminating cast iron pipe and receive periodic updates from natural gas distributors relative to the status of their replacement programs. The GPSD's goal is to eliminate all cast iron material in the shortest time frame and as efficiently as possible and practicable.

♦ State Damage Prevention Program Improvement:

The underground utility damage prevention bill stalled during the 2011 legislative session. The Tennessee Advisory Committee on Intergovernmental Relations (TACIR) previously completed a study relative to the overall Tennessee damage prevention program and made recommendations for future action. The recommendations included; review of damage prevention rulemaking still in development by the PHMSA prior to making changes in the existing Tennessee Underground Utility Damage Prevention Act and initiate discussions with stakeholder groups for consensus building. The GPSD reviewed and provided comments on the Notice of Proposed Rulemaking issued by the Pipeline and Hazardous Materials Safety Administration relative to an effective damage prevention program. The TRA continues to initiate

Continued next page



Gas Pipeline Safety Division (cont.)

communication between stakeholders toward consensus building.

♦ Federal Safety Initiatives:

Natural gas system operators continue to implement their programs of establishing communications and providing information necessary to help the public understand that pipelines are the major transportation system for petroleum products and natural gas in the United States, how pipelines function, and the public's responsibilities to help prevent damage to pipelines. These programs were mandated as a result of the Public Awareness rule added to the federal safety standards. GPSD pipeline safety engineers have been reviewing operator public awareness plans during the past fiscal year.

Tennessee natural gas operators are presently following programs to address the requirements of the Distribution Integrity Management Program (DIMP) rule as added to the federal safety standards. The purpose of a DIMP is to insure that each operator of a natural gas distribution system develops a systematic approach to minimizing threats to pipeline integrity. Although many operators are currently addressing these concerns, this will be a formalized program that can be monitored for effectiveness.

These are only two of many programs monitored by the GPSD in the work to achieve safe and efficient transportation and distribution of natural gas. Minimizing risk to persons and property is paramount in these efforts.



Information Technology Division

Mission

The mission of the Information Technology Division (IT) is to provide, support, and protect hardware and software computer systems used by the staff of the Tennessee Regulatory Authority.

The Division strives to meet the professional needs of its own staff members through training, team building, challenging work, recognition and personal and professional growth.

The division consists of an IT Chief and an Information Systems Resource Specialist II.

Duties of the Information Technology Division:

- ◆ Develop the Information Systems three year plan
- ◆ Develop and maintain the Authority LAN
- ◆ Procure and maintain Authority desktop computer systems
- ◆ Develop new software systems
- ◆ Monitor software license needs
- ◆ Enforce state network acceptable usage policy
- ◆ Provide information resource training to Authority staff and IT staff
- ◆ Develop and administer Authority databases
- ◆ Oversee computer hardware inventory management
- ◆ Provide technical support and training to Authority staff
- ◆ Provide technical advice to Authority leadership

TRA Website

The TRA Website, www.tn.gov/tra, provides cost effective, reliable, and timely access to programs administered by the Authority. During FY 2010 – 2011, the TRA website received 86,549 hits.

Authority information that can be obtained from the website:

- ◆ Appeals and Petitions to the Federal Communications Commission and Federal Trade Commission
- ◆ Assistance program information and forms
 - Captel
 - Lifeline and Link-up
 - Relay Center
 - TDAP
- ◆ Authority conference agendas
- ◆ Authority notices
- ◆ Authority orders
- ◆ Authority press releases
- ◆ Authority rules and regulations
- ◆ Descriptions of the Authority divisions
- ◆ Do Not Call information
 - Do Not Call citizen online registration
- ◆ Do Not Fax information
- ◆ Electronic Dockets
- ◆ Filings made to the Authority
- ◆ Information related to natural gas pipeline safety
- ◆ Regulatory information
- ◆ Special reports

TRA Website Activity 2011-2012

Month	TRA Homepage Hits
July	6730
August	9719
September	8574
October	7063
November	5230
December	6328
January	8919
February	9799
March	4344
April	6951
May	6467
June	5703
Total	85,827



Legal Division

Jean Stone, General Counsel

Mission

To provide the Authority with sound and timely legal advice, effective counsel in the deliberative process, and zealous representation before state and federal agencies, and reviewing courts.

It is the responsibility of the Legal Division to provide in-house counsel to the Directors of the Authority. Attorneys from the Division also represent the Authority and the Directors in their official capacities before the Chancery Courts, Tennessee Court of Appeals, Tennessee Supreme Court and in the Federal Courts. The Legal Division represents the Authority before the Federal Communications Commission and the Federal Energy Regulatory Commission. Attorneys in the Division often serve as Hearing Officers in contested cases and prosecutors in enforcement actions before the Authority. The attorneys provide legal advice and analysis to other divisions within the Authority and may represent staff designated as parties in Authority proceedings. The Legal Division reviews bonds and letters of credit submitted by regulated companies. The attorneys also draft rules to be promulgated by the Authority. Members of the Legal Division prepare orders reflecting actions of the Directors in specific cases.

Accomplishments

During the past fiscal year, 179 dockets were opened or required action by the Authority. Attorneys in the Legal Division provided continuing research, advisory memoranda and counsel to the Directors and staff in most of these dockets. The Legal Division also prepared 194 orders reflecting action by the Authority in active dockets including tariff matters, contested cases, mergers, debt issuances, transfers of authority, approvals and revocations of certificates of public convenience and necessity, franchise approvals, arbitrations and show cause actions.

During the 2011 – 2012 fiscal year, pursuant to the Competitive Cable and Video Services Act, the Legal Division assisted in the review of the applications for state-issued cable franchises of Spring City Cable, Inc., United Telephone Company on behalf of UTC Video Concepts, LLC, TDS Telecom Service Corporation on behalf of its subsidiaries Concord Telephone Exchange, Inc. and Tennessee Telephone Company, and West Kentucky Rural Telephone Cooperative Corporation. The Legal Division also aided in the review of amendments to the cable franchises of BellSouth Telecommunications, LLC d/b/a AT&T Tennessee, Charter Communications, Comcast Cable Communications

Management, LLC, and TDS Telecom Service Corporation on behalf of its subsidiaries Concord Telephone Exchange, Inc. and Tennessee Telephone Company.

The Legal Division assisted the Consumer Services Division in investigations and proceedings related to enforcement of Tennessee's Do-Not-Call and Do-Not-Fax statutes and other violations. The Legal Division provided counsel to the Gas Pipeline Safety Division in its investigations and enforcement related to federal safety standards.

Attorneys from the Legal Division served as Hearing Officers and provided counsel to the Authority in dockets involving: applications for certificates of public convenience and necessity; approval of franchise agreements; complaints between competing local exchange telecommunications carriers and incumbent local exchange telecommunications carriers; and practices and procedures of gas companies relating to asset management. Members of the Legal Division served as Hearing Officers or as advisory counsel in rate cases filed by Piedmont Natural Gas Company, Navitas TN NG, LLC, DSH & Associates, LLC, Berry's Chapel Utility, Inc., Tennessee American Water Company and Atmos Energy Corporation.

Significant case activity for the 2011-2012 fiscal year included:

TRA Proceedings

- ♦ Petition Of Navitas TN NG, LLC for Emergency Relief For Natural Gas Rates (Docket No. 11-00060)
- ♦ Complaint of Concord Telephone Exchange, Inc., Humphreys County Telephone Co., Tellico Telephone Company, Tennessee Telephone Company, Crockett Telephone Company, Inc., Peoples Telephone Company, West Tennessee Telephone Company, Inc., North Central Telephone Coop., Inc. and Highland Telephone Cooperative, Inc. Against Halo Wireless, LLC, Transcom Enhanced Services, Inc. and Other Affiliates for Failure to Pay Terminating Intrastate Access Charges for Traffic and Other Relief and Authority to Cease Termination Of Traffic (Docket No. 11-00108)
- ♦ Examination of Issues Surrounding BellSouth Telecommunications, Inc. d/b/a AT&T Tennessee's Notice of June 28, 2011 Concerning BLC Management, LLC d/b/a Angles Communication Solutions, dPi Teleconnect, LLC, Ganoco, Inc. d/b/a American Dial Tone, Image Access, Inc. d/b/a NewPhone, and OneTone Telecom, Inc. (Docket No. 11-00109)

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Legal Division (cont.)

- ♦ BellSouth Telecommunications, LLC d/b/a AT&T Tennessee v. Halo Wireless, Inc. (Docket No. 11-00119)
- ♦ Petition of Piedmont Natural Gas Company, Inc. for an Adjustment to Its Rates, Approval of Changes to Its Rate Design, Amortization of Certain Deferred Assets, Approval of New Depreciation Rates, Approval of Revised Tariffs and Service Regulations, and Approval of a New Energy Efficiency Program and GTI Funding (Docket No. 11-00144)
- ♦ Petition Of DSH & Associates, LLC for Approval to Amend Its Rates and Charges (Docket No. 11-00162)
- ♦ Petition of Berry's Chapel Utility, Inc. to Recover Costs to Repair Flood Damage and to Refund Customer Service Fees (Docket No. 11-00180)
- ♦ Audit of Atmos Energy Corporation's Incentive Plan Account for the Period of April 1, 2004 Through March 31, 2007 (Docket No. 11-00195)
- ♦ Petition of Berry's Chapel Utility, Inc. to Change and Increase Rates and Charges (Docket No. 11-00198)
- ♦ Complaint of ConocoPhillips Company for an Order Determining ConocoPhillips Not Liable for Penalties and Charges Assessed by Chattanooga Gas Company, or, in the Alternative, Petition for Special Relief (Docket No. 11-00210)
- ♦ Petition for Approval of Demand Response Program and Associated Demand Response Tariffs on Behalf of Kingsport Power Company d/b/a AEP Appalachian Power and Joint Petition of Eastman Chemical Company and Air Products and Chemicals, Inc. for Expedited Review to Allow Certain End Use Customers of Kingsport Power Company to Participate in PJM Interconnection Demand Response Programs (Docket Nos. 12-00012 and 12-00026)
- ♦ Petition of Laurel Hills Condominiums Property Owners Association for a Certificate of Public Convenience and Necessity (Docket No. 12-00030)
- ♦ Petition of the Industry Coalition (AT&T Tennessee, CenturyLink Companies, Frontier Communications of TN/Volunteer and Frontier Communications of America, TDS Telecom, TN Telephone Association, Level 3 Communications, LLC and tw Telecom of Tennessee, LLC) to Eliminate State Lifeline Credit (Docket No. 12-00035)

- ♦ Petition of Atmos Energy Corporation for a General Rate Increase (Docket No. 12-00064)

Court Proceedings

- ♦ Consumer Advocate & Protection Division v. TRA. Tennessee Court of Appeals, Petition for Review of the TRA's decision in *Petition of Chattanooga Gas Company for a General Rate Increase, Implementation of the EnergySmart Conservation Programs and Implementation of a Revenue Decoupling Mechanism* (TRA Docket No. 09-00083)
- ♦ Halo Wireless, Inc. v. TRA, filed in the Tennessee Court of Appeals but removed to U.S. District Court, Middle District of Tennessee, Petition for Review of the TRA's decision in *Complaint of Concord Telephone Exchange, Inc., Humphreys County Telephone Co., Tellico Telephone Company, Tennessee Telephone Company, Crockett Telephone Company, Inc., Peoples Telephone Company, West Tennessee Telephone Company, Inc., North Central Telephone Coop., Inc. and Highland Telephone Cooperative, Inc. Against Halo Wireless, LLC, Transcom Enhanced Services, Inc. and Other Affiliates for Failure to Pay Terminating Intrastate Access Charges for Traffic and Other Relief and Authority to Cease Termination of Traffic* (TRA Docket No. 11-00108)
- ♦ Halo Wireless, Inc. v. TRA, et al. U.S. District Court, Middle District of Tennessee, Complaint related to the TRA's decision in *BellSouth Telecommunications, LLC d/b/a AT&T Tennessee v. Halo Wireless, Inc.* (TRA Docket No. 11-00119)
- ♦ Berry's Chapel Utility, Inc. v. Consumer Advocate & Protection Division & TRA. Tennessee Court of Appeals, Petition for Review of the TRA's decision in *Consumer Advocate's Petition for a Declaratory Order That Berry's Chapel Utility, Inc., Is a Public Utility Under Tennessee Law and Should Be Regulated By the TRA* (TRA Docket No. 11-00005)
- ♦ Tennessee Wastewater Systems, Inc. v. TRA, et al. Chancery Court for the 20th Judicial District at Nashville, Petition related to the TRA's decision in *Petition of Tennessee Wastewater Systems, Inc. for a Declaratory Ruling* (TRA Docket No. 11-00199)



Utilities Division

David Foster, Chief

Mission

To provide the Directors of the TRA with detailed analyses, financial recommendations and technical assistance needed to make informed decisions on issues related to the development of competitive markets and the preservation of just and reasonable rates for regulated utility services in Tennessee.

The Utilities Division encompasses review of investor owned electric, gas, telecommunications, water and wastewater service utilities operating within the state. Each utility segment has unique characteristics and distinctive federal and state mandates for review. The division is comprised of eight full-time and two-part-time employees with diversified experience and background. The Staff's credentials and background consist of Certified Public Accountants, engineers, accountants and business managers. The Staff has over 175 years of combined experience in the utility industry.

Electric

The Authority regulates three electric utilities in Tennessee: Kingsport Power Company d/b/a AEP Appalachian Power, Entergy Arkansas, Inc., and Kentucky Utilities Company. The Authority establishes all rates, terms and conditions for service for Kingsport Power via rate of return regulation. The other two other utilities, Entergy Arkansas, Inc. and Kentucky Utilities Company, have a very small presence in Tennessee and the Authority follows actions taken by the respective states in which they primarily operate.

Kingsport Power Company, through its parent company American Electric Power, is a member of the Pennsylvania, New Jersey, Maryland Interconnection, LLC ("PJM"). PJM is a regional transmission organization ("RTO") that is responsible for operating the wholesale electric market and managing the long-term regional electric transmission planning process in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia. The Authority, through its membership in the Organization of PJM States, Inc. ("OPSI"), interacts with PJM, its Board of Managers, and its Market Monitor to ensure that Tennessee consumers are served by an efficient, effective, and reliable wholesale energy market. The Division assists the Authority in consideration of RTO issues such as market monitor independence and capacity market revisions.

Kingsport Power Company does not generate the electricity it sells to consumers but rather purchases it from Appalachian Power, a business unit of American Electric Power. Since the electricity is

purchased and transmitted from a source outside of Tennessee, it is considered an interstate service and thus regulated by the Federal Energy Regulatory Commission ("FERC"). Accordingly, the wholesale rate for electricity charged by Appalachian Power to Kingsport is regulated by the FERC. Kingsport, in turn, passes on any FERC approved rate increases or decreases to its consumers through a Purchased Power Adjustment Rider ("PPAR") tariff without any profit margin added. With this tariff in place, the TRA allows changes in electricity costs to be passed on to consumers without a rate petition because the charges are not controlled by Kingsport itself, and it alleviates the need for rate petitions. The Division reviews these tariff filings, including all supporting information, to ensure that they comply with the approved PPAR tariff and that the company does not recover more from consumers than the additional cost incurred as a result of the wholesale rate increase.

On August 1, 2011, the Authority approved a net metering service tariff for customers of Kingsport Power Company. Under the provisions of the tariff, customers have the opportunity to construct alternative electric production facilities at their own expense (solar, wind, etc.) and use that electricity for their own use. If the electricity generated does not meet a customer's individual needs, then any additional electricity will be purchased from Kingsport Power Company at normal tariff rates. The customer, however, is not compensated for any electricity produced beyond what is used by the customer, but rather will have the additional electricity produced carried forward to the next month's billing.

Gas

The regulated gas industry in Tennessee is comprised of five natural gas companies, two methane gas providers and one intrastate pipeline providing transportation service to industrial customers in Kingsport, Tennessee. Revenues for the largest three companies, Chattanooga Gas, Atmos Energy, Inc., and Piedmont Natural Gas totaled \$80 million, \$133 million and \$191 million respectively for the twelve months ended December 31, 2011. While the overall regulation of each company is rate of return, the volatility of the gas commodity costs necessitates a flow through mechanism to ensure a company's return on investment remains relatively constant. The mechanism, referred to as Purchased Gas Adjustment ("PGA"), is designed to provide immediate rate reaction to changes in gas prices. Subsequently, an Actual Cost Adjustment ("ACA"), audit is conducted to ensure that companies collect the actual cost of gas from ratepayers.

The Division also conducts annual Weather Normalization Audits ("WNAs") which is the mechanism that is in place to reduce the impact abnormal temperature has on customers' bills and on the

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Utilities Division (cont.)

gas utilities' operations. In periods of colder than normal weather, customers receive a credit on their bills, while in periods of warmer than normal weather, customers are billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically and the gas company should have a more stable rate of return. Incentive Plan Audits ("IPAs") are conducted to ensure that utilities are prudent in their gas purchasing practices and that ratepayers are compensated appropriately for the companies' off system use of gas assets paid for by the ratepayers. The results of each annual audit is documented in Division audit reports and filed with the Authority for consideration.

The Authority also has in place a three-year experimental Alignment and Usage ("AUA") mechanism for Chattanooga Gas Company which is aimed at stabilizing revenues. The AUA mechanism minimizes the effects of volumetric changes on overall company revenues by adjusting rates to account for changes in Authority approved volumes. The Authority also has an ongoing outreach program for Chattanooga Gas Company which provides free programmable thermostats to consumers as well as various other education and outreach programs.

It is sometimes necessary for a public utility to enter into a Special Contract with certain customers, generally large industrial businesses, when the services to be provided are not covered by or permitted in the utilities' general tariffs. TRA Rule 1220-4-1-.07 requires these agreements to be filed with the TRA for its review and approval. After completion of the Division's review, the TRA approved one special contract agreement.

During the twelve months ended June 30, 2012 the Division analyzed and prepared recommendations for two rate case petitions, one for Piedmont Natural Gas (formerly Nashville Gas) and Navitas TN NG, LLC, which operates gas systems in portions of Campbell, Pickett and Fentress Counties in Tennessee.

Piedmont, which serves Davidson County and surrounding areas, filed its petition to increase rates on September 2, 2011, requesting a \$16.7 million increase in base rates. A Joint Stipulation and Settlement of the issues in this case was filed by the parties to the case (Piedmont and the Consumer Advocate and Protection Division of the Office of the Attorney General) on December 22, 2011. This Settlement proposed an annual revenue increase of \$11.9 million, resulting in an overall base rate increase of 6.3%. The Division analyzed the Settlement and presented our recommendation to the TRA Directors, which in turn considered and approved the Settlement at a regularly scheduled conference held on January 23, 2012. It was the first base rate increase for Piedmont in eight (8) years.

Navitas filed a petition for emergency rate relief on April 20, 2011, requesting an additional \$97,000 in revenues for the 551 customers it serves. A Joint Stipulation and Settlement of the issues in this case was filed by the parties to the case (Piedmont and the Consumer Advocate and Protection Division of the Office of the Attorney General) on July 5, 2011. The Agreement proposed a temporary rate increase of \$50,000 conditioned upon Navitas filing a formal rate case including all minimum filing requirements and supporting sworn testimony no later than June 30, 2012. The Division analyzed the Settlement and presented our recommendation to the TRA Directors, which in turn considered and approved the Settlement at a regularly scheduled conference held on August 1, 2011. It was the first base rate increase for Navitas in nearly twenty years.

TCA 65-4-107 provides that no franchise granted to a public utility shall be valid until approved by the Authority. The Division analyzed two proposed franchise agreements (one between Navitas and the town of Jellico, TN and one between Piedmont and the City of La Vergne) and presented our analysis to the TRA Directors, which in turn approved the franchise agreements.

Telecommunications

The TRA regulates the rates and service quality of investor owned telecommunications providers in Tennessee (not Municipalities, Cooperatives, Cable, Internet or Wireless providers). There are 18 incumbent local exchange companies ("ILECs"), 127 facility based competitive local exchange carriers ("CLECs"), 203 resellers of local and long distance service, 5 long distance facility providers, 79 pay telephone providers and 8,433 pay telephones ("COCOTs") within the state.

The telecommunications industry has dramatically changed since passage of the 1995 and 1996 State and Federal Telecom Acts. In 1995, the Tennessee General Assembly enacted laws allowing local exchange companies (LECs) operating under traditional rate-of-return regulation to opt into price regulation as set forth in Tenn. Code Ann § 65-1-209. Rate of return regulation sets prices to provide the opportunity to recover a fair and reasonable return on regulated investment. This is accomplished by forecasting the company's revenues, expenses and investment for a certain period of time. Under price regulation, however, only prices and revenues are considered in the rate setting process. Furthermore, LECs' overall prices and revenues are allowed to increase pursuant to an indexing method set forth in the aforementioned statute and pursuant to more detailed methodology approved by the Authority. Price regulation is commonly referred to as "price caps".

Subsequently, the U.S. Congress passed the Telecommunications

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Utilities Division (cont.)

Act of 1996. These laws, along with subsequent Federal Communications Commission ("FCC") Orders, set forth directives to open the national telecommunications market to competition. Numerous competing providers obtained certificates to operate in Tennessee and built portions of their own telephone network; these companies, however, still had to rely heavily on the incumbent provider's facilities to provision complete service to their customers. The 1996 Federal Act recognized this necessity by including language requiring incumbent telephone providers to provide access to elements of their networks to competing providers at cost, with non-discriminatory terms and conditions. The TRA, as did other state commissions, established wholesale rates, terms and conditions through extensive cost proceedings and arbitrations. Also pursuant to these federal mandates, the TRA established wholesale discounts for competitors that desired simply to resell the incumbent telephone company's services. Today, companies submit their negotiated agreements to the TRA for approval or, in the alternative, submit issues to be arbitrated by the TRA.

As competition flourished over the next decade, the TRA's emphasis on the telecommunications industry continued to migrate from retail to a wholesale perspective. In May 2009 The Tennessee General Assembly, recognizing the advancement of telecommunications competition in Tennessee, passed legislation enacting market regulation, which essentially removed regulation for all retail services and operations except as defined by the new law. Approximately 100 telephone companies (both incumbent and competing carriers) have elected to operate under market regulation.

The 2011 General Assembly enacted the "Uniform Access, Competition, and Consumer Fairness Act of 2011." This legislation was codified in Tenn. Code Ann. §§ 65-5-301 and 302 and requires intrastate switched access rates be reduced to interstate rate levels over a five year period via 20% annual access reductions beginning April 1, 2012. The Division Staff reviewed and analyzed 75 tariff filings from companies to ensure that the proposed access reductions were in compliance with the aforementioned statutory requirements.

Finally, the TRA continues to abide by the FCC's 1997 order implementing a federal universal service support system for telecommunications. The system is designed to meet the requirements of the Telecommunications Act, maintain affordable basic residential rates, ensure affordable basic service continues to be available to all users and bring the benefits of competition to as many consumers as possible. Criteria were established that a provider must achieve to be designated and maintain Eligible Telecommunication Carrier ("ETC") status and receive support.

The Authority has approved ETC designation for 34 providers. This total represents both the companies regulated by the Authority and the Telephone Cooperatives which are not regulated by the Authority. The Division receives and reviews annual self-certifications from these providers confirming that they are in compliance with FCC provisions, and then makes recommendations to the TRA Directors regarding the filings. The TRA is required to report the results to the FCC so the companies in compliance can continue to receive universal service support payments.

♦ Telecommunications Statistics In Tennessee

- According to the most recent FCC Broadband Progress Report, as of June 30, 2011, 95.3% of Tennesseans have access to broadband (768Kbps/200Kbps). The adoption rate in Tennessee is 52.7% compared to a national average of 64%.
- As of June 30, 2012, Tennessee had 357 companies providing local telecommunications services in Tennessee including 27 incumbent providers (18 investor owned and 9 telephone co-operatives), 127 competitive local exchange carriers ("CLECs") and 203 resellers of local telephone services. Note: Incumbent providers are those companies providing local telecommunications services prior to passage of the Telecommunications Act of 1995 on June 6, 1995 while CLECs are those companies who began offering facilities-based local telecommunications subsequent to June 6, 1995.
- As of June 30, 2012, 2.23 million regulated wired telephone lines were in service in Tennessee with approximately 982,000, or 44.0%, of those lines being provided by CLECs.
- As of June 30, 2012, CLECs were providing service in 88 of Tennessee's 95 counties; 46% of the CLEC lines are in the state's five largest metropolitan areas. Of the 88 counties served by CLECs, 8 counties have 15 or fewer access lines served by CLECs.
- Approximately 63% of the lines provided by CLECs in Tennessee are business lines while 37% are residential lines (as of June 2012).
- Three municipal electric utilities are providing telecommunications in Tennessee: Chattanooga Electric Power Board; Jackson Energy Authority; and Bristol Tennessee Essential Services.
- To conserve telephone numbers and reduce the need to add area codes, Tennessee has ordered that telephone numbers be assigned to carriers in 1,000 number blocks instead of the 10,000 number blocks previously permitted by the FCC.

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Utilities Division (cont.)

Tennessee presently has six (6) area codes and has not needed to add an area code since September 2001. It is anticipated, however, that an additional area code will be needed prior to the 2nd quarter of 2015.

The FCC has also delegated the "Safety Valve" issue to the Authority which allows a provider that has had its application for number resources (number blocks) denied by the numbering administrator to appeal the decision to the Authority. The Authority then reviews the request for numbering resources and, when appropriate, orders the FCC's numbering administrator to reverse its decision. For the twelve months ending June 30, 2012, the Authority has reviewed twelve such petitions, each time reversing the FCC administrator's decision.

Wastewater

There are 13 wastewater utilities with 131 wastewater systems located across Tennessee. Tariffs containing all rates, terms and conditions of service are on file with the Authority. There were two new wastewater company applications received during the year ended June 30, 2012.

The Division annually reviews all wastewater companies to ensure compliance with TRA Rules which requires the posting of a financial security by a public utility providing wastewater service to ensure continued proper operation and maintenance. To comply, all wastewater companies must provide evidence of the required financial security and file tariffs to recover the costs of providing this security. The Division reviews the filings and notifies the Directors of any discrepancies or non compliance.

The Division continues to work with the Tennessee Department of Environment and Conservation (TDEC) coordinating efforts to ensure there is a plan for ongoing operation and maintenance of wastewater systems. The Division also works with the industry to devise measures to accomplish the goals of continued operations and safe and healthy wastewater systems for the public. Finally, Staff continually monitors the financial condition of these utilities (including audits) and works with them in developing avenues to meet their financial obligations for replacing aging infrastructure, while at the same time attempting to maintain affordable rates for consumers.

Water

The Authority regulates six (6) water utilities in Tennessee. These utilities are rate of return regulated and have on file tariffs containing all rates, terms and conditions of service. The largest water company under our jurisdiction is Tennessee American Water Company, which provisions water service to Chattanooga,

Tennessee and surrounding areas. At June 30, 2012 the Company had a pending petition to increase rates by \$10.6 million annually.

Three of the regulated water utilities in Tennessee, however, have fewer than 300 customers. Substantial accounting and legal costs are incurred when any company determines a need to file for a rate increase. In order to minimize rate case expense and the corresponding recovery from ratepayers for these smaller companies, the Authority considers the segregation of Utilities Division Staff to assist in the preparation and settlement of the matter.

Activities

The Division continues to participate in various training opportunities including reading trade and industry journals and government reports to stay current on governmental and industry trends in the electric, gas, telecommunications, water and wastewater industries. We also meet regularly with industry representatives to encourage the sharing of ideas on how to improve customer service and operating efficiencies.

Analysis - Industry and Filings

♦ Tariff Review (363)

- Reviewed 300 tariff filings by telecommunications companies to introduce new services or to revise the rates, terms and conditions of existing services.
- Reviewed 25 tariff filings by electric, gas, water and wastewater companies to introduce new services or to revise the rates, terms and conditions of existing services.
- Reviewed 26 PGA filings and 12 Fuel Clause Adjustments.

♦ Telecommunications Interconnection Agreements (28)

- Reviewed twenty-two petitions for new interconnection agreements and six petitions for amendments to existing interconnection agreements.

♦ Gas and Wastewater Audits (18)

There are four (4) types of audits performed by the Division. These audits are: Compliance audits, Actual Cost Adjustment (ACA) audits, Weather Normalization Adjustments (WNA) audits and Performance Incentive Plan (IPA) audits.

- 1) **Compliance Audits - Escrow (6)** - Compliance audits are performed to monitor utilities' compliance with applicable laws, orders, and policies of the Authority, as well as utility

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Utilities Division (cont.)

accounting operations to ensure compliance with the Uniform System of Accounts (USOA) prescribed by the National Association of Regulatory Utility Commissioners (NARUC) and the Federal Energy Regulatory Commission (FERC). The Division schedules and conducts these audits as resources permit.

- 2) **ACA Audits (5)** - The Authority's Rule 1220-4-7-.02 permits a gas utility to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers. The Purchased Gas Adjustment (PGA) Rule, which was adopted July 1, 1992, is the mechanism used to accomplish this recovery and consists of 3 major components:

- Actual Cost Adjustment (ACA)
- Gas Charge Adjustment (GCA)
- Refund Adjustment (RA)

The ACA is the difference between the revenue billed customers by means of the GCA and actual costs paid to suppliers as reflected in the Deferred Gas Cost account. The rule requires the utility to submit a filing each year detailing the transactions in the Deferred Gas Cost Account. The TRA Staff audits this filing to determine that the utility is following all the rules, regulations, and directives adopted by the Authority. This allows the Authority to adjust for over or under collected gas costs.

Each year, the Staff conducts ACA audits on the 5 gas distribution utilities under rate jurisdiction of the TRA: Atmos Energy Corporation, Chattanooga Gas Company, Piedmont Natural Gas Company, Counce Natural Gas and Navitas TN NG, which purchased Gasco Distribution Systems effective January 1, 2011. During the 2011 fiscal year, the Staff reviewed gas invoices for these utilities totaling approximately \$341.6 million. The Staff also reviewed all adjustments made to the Deferred Gas Cost accounts, the underlying supporting documentation, the calculation of gas cost recoveries and compliance with PGA filings, including ongoing Refund Adjustments, and the calculation of interest on account balances. Audit results and recommendations are detailed in an audit report on each utility.

- 3) **WNA Audits (3)** - In setting rates, the Authority uses a normalized level of revenues and expenses for a test year to eliminate unusual fluctuations. One part of normalizing revenues in the test year is the adjustment of sales volumes to reflect "normal" weather, which is calculated based on the previous thirty years' weather data. Since "normal" weather rarely occurs, customer bills can fluctuate dramatically due to temperature changes from month to month, and gas companies' revenues likewise fluctuate, causing them to earn more or less than their authorized rate

of return. In recognition of this fact, the TRA has approved a WNA Rider, to be applied to residential and commercial customer bills during the winter months.

The TRA Staff conducts audits each year of the WNA Rider as it is applied to the three major gas companies: Atmos Energy Corporation, Chattanooga Gas Company, and Piedmont Natural Gas Company. In order to meet the objectives of the audit, the Staff compares the following on a daily basis:

- (a) The company's actual heating degree days to National Oceanic and Atmospheric Administration (NOAA) actual heating degree days;
- (b) The company's normal heating degree days to the normal heating degree days calculated in the last rate case; and
- (c) The company's calculations of the WNA factors to the Staff's calculations.

The Staff also audits a sample of customer bills during the WNA period to verify that the WNA factors and all tariff rates have been correctly applied to the bills. Results of the audits and any recommendations are detailed in the annual audit report for each company.

During the 2011 fiscal year, WNA related revenues for the three gas utilities amounted to \$2,181,872 WNA revenues refunded.

- 4) **IPA Audits (4)** - Performance Incentive Plan mechanisms have been approved by the TRA for the three major gas utilities. These plans are designed to provide incentives to gas utilities in a manner that will produce rewards for customers and shareholders while improving the gas procurement process. All savings benefit the consumers to various degrees. The Incentive Plan replaces the after-the-fact reasonableness or prudence reviews of gas purchasing activities formerly required by the Purchased Gas Adjustment Rule. The Staff audits these filings in a manner similar to the audits conducted for the ACA filings. During Fiscal Year 2011, incentive audits were conducted on the three major regulated gas utilities.

♦ **Certification of Competitive Carriers**

- Analyzed and approved the application of eight (8) companies requesting designation as facility-based competitive local exchange carriers. The Division also reviewed two resellers of local and long distance service during the fiscal year.
- Analyzed and approved one application for a wastewater

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Utilities Division (cont.)

company seeking designation to provide new systems within the state, and approved two new systems for existing wastewater providers.

♦ Telecommunication Interconnection Complaints

- Resolved interconnection disputes between competing carriers and incumbent providers. In most cases, the Authority was asked to interpret the language and requirements of the interconnection agreement signed by the parties.



Utilities Division (cont.)

Customers Served by and Total Revenues of Electric, Gas, Water, Wastewater Utilities within Tennessee During 2012 Calendar Year

	Residential	Commercial	Industrial	Other	Total	Total Revenues	Annual Avg. Bill Residential	Residential Revenues
<u>Gas Utilities:</u>								
Atmos Energy, Inc.	114,147	15,623	454	483	130,707	133,462,584	615	70,205,979
Chattanooga Gas	54,253	8,220	257		62,730	79,914,688	614	33,297,493
Counce Natural Gas	94	36	2		132	194,320	544	51,177
Navitas TN NG, LLC	452	85	13		550	-	-	
Piedmont Natural Gas	150,551	16,884	46	143	167,624	190,743,230	728	109,640,601
<u>Electric Utilities:</u>								
Entergy Arkansas, Inc. ²	5	4	3		12	8,698	471	2,356
Kentucky Utilities Company ²	5				5	5,734	1,103	5,516
Kingsport Power Co.	41,208	5,684	174	148	47,214	151,493,306	1,374	56,619,972
<u>Water/Wastewater Utilities:</u>								
Aqua Green Utility, Inc. (S)	70				70	8,594	123	8,594
Aqua Utilities (W)	379				379	102,712	250	94,637
Aqua Utilities (S)	302				302	63,383	210	63,383
Cartwright Creek (S)	511	39			550	406,373	519	265,176
Cumberland Basin Wastewater, LLC (S) ¹								
DSH & Associates, LLC (S)	3	27		3	33	38,811	534	1,603
Foothills Water Properties (W)	94				94	76,999	819	76,999
Greenville Sewage, LLC (S)	1	1			2	9,018	9,018	9,018
Hickory Star (W)	124	2			126	66,644	537	66,644
Hickory Star (S)	49	4			53	20,542	222	10,902
IRM Utility, Inc. (S)	69				69	61,393	685	47,279
King's Chapel Capacity (S)	59				59	36,323	616	36,323
Berry's Chapel (S)	839	2			841	576,502	663	556,293
Newport Resort Water System (W)	48				48	19,081	398	19,081
Shiloh Falls Utilities (S)	223	14			237	54,271	182	40,518
Tennessee American Water Co. (W)	64,862	8,258	153	760	74,033	42,729,559	274	17,753,951
Tennessee Wastewater Systems, Inc. (S)	1,245	808			2,053	1,425,268	438	545,247
Tennessee Water Service, Inc. (W)	549	3			552	327,158	582	319,331

"W" = Water / "S" = Wastewater (Sewer)

¹ Company filed a request for a Certificate of Convenience and Necessity (CCN) in March 2007. The Company has not begun servicing customers yet.

² Utilities are located in Arkansas and Kentucky. The TRA has jurisdiction over a few residential customers residing on the Tennessee side of the state line.



Utilities Division (cont.)

Telecommunications Service Providers

1. 1-800 RECONEX d/b/a U.S. TEL
2. Access Fiber Group, Inc.
3. Access Point
4. ACN Communication Services
5. Advantage Cellular
6. Aeneas Communications
7. Alec, Inc.
8. American Fiber Network
9. American Fiber Systems
10. AT&T Comm. of the So. Central States
11. Baldwin County Internet/DSSI Service, LLC
12. Balsam West FiberNet
13. Bandwidth.com CLEC, LLC
14. BCN Telecom
15. BellSouth Long Distance
16. Ben Lomand Communications
17. Big River Telephone
18. Birch Communications, Inc.
19. Birch Telecom
20. BLC Management d/b/a Angles Comm.
21. Bristol Tennessee Essential Services
22. Broadview Networks, Inc.
23. Broadvox-CLEC, LLC
24. Broadwing Communications, LLC
25. Budget Pre-Pay, Inc.
26. Bullseye Telecom
27. Business Telecom
28. CenturyTel Acquisition, LLC
29. CenturyTel Fiber Company
30. CenturyTel Solutions
31. Charter FiberLink-Tennessee
32. Cincinnati Bell Any Distance, Inc.
33. Comcast Phone of Tennessee
34. CommPartners
35. Covista
36. Cypress Communications Operating Co.
37. Deltacom Communications, Inc.
38. Dialtone & More
39. DIECA Communications
40. DPI Teleconnect, LLC
41. DSLnet Communications
42. DukeNet Communications, LLC
43. Electric Power Board of Chattanooga
44. ENA Services, LLC
45. EnTelegent Solutions, Inc.
46. ETC Communications, LLC
47. EveryCall Communications, Inc.
48. Four Star Marketing, LLC
49. Frontier Communications of America
50. Frontier Communications of TN/Vol
51. Georgia Public Web. Inc.
52. Global Connection Inc. of Tennessee
53. Global Crossing Local Services
54. Global NAPs Gulf
55. GoAmerica Relay Services Corp
56. Granite Telecommunications
57. Hamilton Relay
58. Hypercube Telecom, LLC
59. IBFA Acquisition Company
60. Image Access d/b/a NewPhone
61. Intrado Communications
62. Jackson Energy Authority
63. Kentucky Data Link, Inc.
64. Knology of Tennessee
65. Knoxville Data Link, Inc.
66. Level 3 Communications
67. Lifeconnex Telecom, LLC
68. Lightyear Network Solutions
69. LMK Communications, LLC
70. LoadPoint Telecommunications
71. Madison River Communications
72. Matrix Telecom, Inc.
73. MCC Telephony of the South, LLC
74. MCI Communications Services, Inc.
75. MCImetro Access Transmission Svs.
76. McLeod USA Telecomm Services
77. Memphis Networx
78. Metropolitan Telecommunications
79. Midwestern Telecom, Inc.
80. Momentum Telecom
81. MountaiNet Telephone Company
82. Navigator Telecommunications
83. Network Telephone Corp.
84. Neutral Tandem-Tennessee, LLC
85. New Edge Network
86. Nextlink Wireless, Inc.
87. Nexus Communications, Inc.
88. Norlight, Inc.
89. NOS Communications
90. NOW Communications, Inc.
91. OneTone Telecom Inc.
92. OnWav, Inc.
93. Pac-West Telecom, Inc.
94. Peace Communications
95. Peerless Network of TN, LLC
96. PNG Telecommunications, Inc.
97. Quality Telephone
98. Qwest Communications Corp.
99. RTC Solutions
100. SBC Long Distance, Inc.
101. Sprint Communications Company
102. Syniverse Technologies, Inc.
103. Talk America
104. TCG MidSouth
105. TEC of Jackson, Inc.
106. TelCove Operations
107. Tele Circuit Network Corp.
108. Telecommunications Systems, Inc.
109. Telepak Networks
110. Telescan, Inc.
111. Tele-Sys, Inc.
112. Tennessee Independent Telecommunications Group, LLC
113. Tennessee Telephone Service d/b/a Freedom Comm.
114. The Other Phone Company, d/b/a Access One Comm.
115. Touchone Communications, Inc.
116. TransNational Communications
117. TW Telecom of TN, LLC
118. Twin Lakes Communications, Inc.
119. UCN
120. US Carrier Telecom, LLC
121. US LEC of Tennessee
122. Vo2 Networx
123. Volunteer First Services
124. Wholesale Carrier Services, Inc.
125. Wiltel Communications, LLC.
126. Windstream NuVox, Inc.
127. Worldspice Communications, Inc.
128. XO Tennessee
129. YMax Communications